CALFED
BAY-DELTA
PROGRAM

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Memorandum

Date: June 23, 1999

To: Jim Boyd
Energy Advisor to the Secretary for Resources

From: Lester A. Snow
Executive Director

Subject: California's Hydroelectric Facilities

This memorandum is in response to your request during the June 16, 1999 "Hydro Group" meeting for participants to identify opportunities and liabilities with potential future ownership and operation of hydroelectric facilities.

In our Integrated Storage Investigation, CALFED will consider how all types of storage, including reoperation of hydroelectric facilities, could fit into a comprehensive water management strategy. Potential benefits (opportunities) from the hydropower facilities to the Bay-Delta system could include:

- **New water yield** - While CALFED does not believe that the new water yield potential is large, there may local be water supply benefits. CALFED will not consider this project specific level of detail but will focus on the potential cumulative effects of reoperation on the Bay-Delta system and establishing guidelines to assure that CALFED's objectives are considered.

- **Timing of flows** - Even if new water yield proves to be insignificant, the hydroelectric reservoirs could help change the timing of flows to benefit the Bay-Delta system. This could be especially useful for CALFED's Environmental Water Account which needs access to storage for more real-time water management.

- **Facilities are existing** - Access to storage at the beginning of CALFED implementation is important to the Environmental Water Account. Since new storage facilities (groundwater or surface) could take many years to plan and construct, access to existing storage facilities must be secured. The hydropower reservoirs are one potential source of the needed storage.

- **Coordination with CALFED Watershed and Ecosystem Programs** - Most of the hydropower facilities are located within the upper watershed area. Project lands could be managed to benefit the Watershed Program. Riparian lands and flows could be managed to benefit CALFED's Ecosystem Restoration Program.

- **Potential to reopen stream reaches** - While most of the hydropower facilities are upstream of other major barriers (such as Lake Oroville) to upstream fish movement, some may directly prevent upstream movement of anadromous fish. The ISI will consider the opportunity for removal of barriers while appropriately mitigating the effects on water supply reliability.

As we have mentioned previously, any change in operations that is shown to be beneficial could be pursued regardless of future ownership of facilities on a compensated, willing participant basis.

From CALFED's perspective, we see no specific liabilities that haven't been identified by the other departments of the Resource Agency. The challenge will be improving the balance of environmental and water supply benefits obtained from operation of these facilities.

I am also attaching a summary of an ownership proposal provided by a representative of The Pacific Coast Federation of Fishermen's Associations. The essence of the proposal is for temporary (6 years) State ownership of the hydroelectric assets to complete the "clean-up of unfinished environmental business at each of the facilities". Their reasoning on the State purchase is that the lower interest rate on revenue bonds compared with private financing would generate net proceeds that would be used for environmental work and electric ratepayer dividend. Once the environmental work is completed, the facilities would be sold; they feel the facilities would be worth more than when purchased. If you want a presentation at your next "Hydro Group" meeting or want to discuss this proposal directly, you can call Guy D. Phillips at 415-488-1340.

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THE CONSUMERS' ENERGY & ENVIRONMENTAL SECURITY CORPORATION

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FEATURE	PROVISIONS
Utility ownership choice	• Utilities can leave assets within regulated utility or State has a right of first refusal to purchase the assets through the new Corporation
Rate Freeze	• Ends the rate freeze faster than any alternative
Cost	• State revenue bond proceeds lent to the corporation to be paid back with interest • Lower cost than any other alternative • Hundreds of millions of dollars every year for ratepayer and environmental dividend • Makes available hundreds of millions of dollars every year from savings resulting from revenue bond financing
Retail electric rates	• Provides immediate rate relief • Provides annual cash ratepayer dividend for six years • Provides cash dividend when system is sold in six years
PG&E transition to competition	• Provides PG&E shareholders and ratepayers full market value and credit toward stranded cost recovery sooner than any alternative
Market power	• Provides for management of market power • Financial benefits from market power paid in cash to ratepayers
Long term ownership	• PG&E/SCE or other entities can own the assets in the future after they have been cleaned up • Present and future owners relieved of the contingent liabilities associated with the hydro assets
Environmental restoration and protection	• Establish environmental restoration as a higher priority than profits • Annual cost savings shared with ratepayers' dividend to invest in environmental restoration/protection • Transition funds used for immediate environmental restoration needs • Trust fund to finance environmental needs after six years
County needs	• Immediate opportunity for rural counties to purchase the contracts on projects within their boundaries • Provides County Watershed Fees to each county where facilities are located: (a) natural resource management, (b) economic development, and (c) in lieu of property taxes while the hydro assets are owned by the corporation
Private sector efficiency and incentives	• Independent corporation with a private board of directors • Contract for operation of the system by a private operator
CALFED	• Consistent with and supportive of CALFED objectives and projects
Federal government preemption	• Owner elects to provide more protection than the minimums specified by FERC • Owner sets future ownership terms to standards higher than FERC

Earliest Possible Dates For Key Milestones Under Three Divestiture Scenarios

Action	Citizens' Corp	Auction	PG&E/Gen
End rate freeze	March, 2000	Nov. 2001	June 2001
Market Value PG&E assets	March, 2000	Nov., 2001	June, 2001
Complete EIR for each asset	(post-purchase)	Jan. 2001	Jan. 2001
Establish PUC procedures	N.A.	Jan. 2001	Jan. 2001
Establish transfer terms & conditions	Feb., 2000	June, 2001	Feb., 2001
Counties purchase seven projects	May, 2000	Nov., 2001*	Never
Carry out PUC procedures	N.A.	July, 2001	Ap., 2001
PUC approval of transaction	March, 2000	Aug., 2001	May, 2001
PG&E Gen buy-back of assets	March, 2006	Never	N.A.

* Under the auction scenario, the counties would have an opportunity to compete for purchase of the hydro assets against all other competitors. The counties may win or lose some or all of the competition.

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